97-84133-8

Lasker, Albert D.

What are we to do with our government owned ships?

[S.l.]

[1922?]

97-84133-8
MASTER NEGATIVE #

COLUMBIA UNIVERSITY LIBRARIES
PRESERVATION DIVISION

BIBLIOGRAPHIC MICROFORM TARGET

ORIGINAL MATERIAL AS FILMED - EXISTING BIBLIOGRAPHIC RECORD

Lasker, Albert D. What are we to do with our government owned ships? Do we need a merchant marine for peace and war? / statement by Albert D. Lasker (United States Shipping Board). [S.l. : s.n., 1922?]

RESTRICTIONS ON USE: *Reproductions may not be made without permission from Columbia University Libraries.*

TECHNICAL MICROFORM DATA

FILM SIZE: 35mm REDUCTION RATIO: 10:1 IMAGE PLACEMENT: IA (IIA) IB IIB

DATE FILMED: 9-11-97 INITIALS: KB

TRACKING # : 22066

FILMED BY PRESERVATION RESOURCES, BETHLEHEM, PA.

308
Z
Box 93

What Are We To Do With Our Government Owned Ships?

Do We Need A Merchant Marine For Peace and War?

Statement by

ALBERT D. LASKER, *Chairman*
United States Shipping Board

At the Joint hearing before the Senate Committee on Commerce and the House Committee on Merchant Marine and Fisheries on the proposed Bill providing aids for American Shipping

Washington
Government Printing Office
1922

WHAT ARE WE TO DO WITH OUR GOVERNMENT OWNED SHIPS?

DO WE NEED A MERCHANT MARINE FOR PEACE AND WAR?

Whether or no America is to be potent on the seas for the next several generations will be decided in the disposition by Congress of the legislation now proposed by the President for the aid and upbuilding of our merchant marine.

THE QUESTION AT ISSUE.

The matter under consideration is not merely one of subsidy or no subsidy; it involves what shall become of the Government's vast war-built merchant fleet; what shall be done to end the large losses of governmental operation of ships through the Emergency Fleet Corporation; what shall be done to insure the overseas carriage of America's surplus products in times of peace; and it involves, in importance possibly beyond all these questions, whether America, through the possession of an adequate merchant marine, shall be self-sustaining and self-sufficient on the seas in times of war.

The question of subsidy to American ships has hardly ever been treated as a partisan one, in spite of the fact that we hear favorable consideration has been a Republican policy and opposition a Democratic one. The fact is that for practically half a century neither party has given life to a policy of direct aid to American ships. The Republican Central West has ever joined with the Democratic South in distaste and revulsion to subsidizing our shipping.

ISSUE NOT A PARTISAN ONE.

Times change; conditions change with changing times; and just as in a nonpartisan way subsidies have hitherto been denied, it is the feeling of the seven members of the Shipping Board that the question of Government aid to American ships, including subsidies, is an all-American one and should consciously be treated no more politically than should the needs of the Army, the Navy, or the Post Office Department.

Prior to the Great World War, America was content to have its cargoes carried in foreign bottoms. We were then a debtor Nation

and we could feel sure that those whom we owed, being the great maritime nations of the world, would furnish us the bottoms with which to carry the goods to liquidate our debts.

CHANGES WROUGHT BY THE WORLD WAR.

The World War has changed practically every phase of human life. America emerges from that war holding first economic place in the world. She finds herself a creditor Nation instead of a debtor Nation; and whether we will it or no, we are now cast for continuing first place on the stage of world commerce. No Nation ever held that proud position unless she was strong in her own rights on the seas. It is for us here and now to determine whether America shall attempt to refuse the place which destiny has carved out for her.

When Europe awoke that summer morning in 1914 to find herself enmeshed in a World War, it was the beginning of a demand for American exports such as the wildest dreams of our greatest empire builders never visioned. That part of the world to whom the seas were still free centered its efforts to send its ships to our shores that they might be laden with the products of our factories, farms, and mines. We ourselves could make but a pitiful showing in the exportation of our own goods under our own flag. And were it not that the maximum production we could give did not even approximate the minimum of Europe's needs, we should have been in a sorry plight; for, had the war been lesser in area, and therefore the demands of combatants not required all the output we could supply, our great production would not have been used. We would not have had the ships to send our surplus wares to neutrals; and if one of the great maritime nations, say Britain, had been solely engaged in a smaller war confined to a narrower but distant area, her ships would have been diverted to her own uses.

COSTLY LESSEN OF BOER WAR.

This is exemplified through the Boer War, where the conduct of operations was at a great distance from their base. Britain's ships were needed for the long carriage of men and supplies, though not in quantities remotely comparable to the World War. Thus, while Britain did not have pressing need of our production, she had such need of her own ships for the long haul that we were sorely pressed for carriage in our trade with her and other nations, as was evidenced by depression in many of our important commodities. Had we at that time had the expanded factory capacity we now have, the diversion of England's tonnage from our peace needs to her war needs would have been a calamity indeed. As it was, we all remember the serious effect this diversion of British tonnage had on the marketing

of our farm products; it demonstrated that the farmer, even more than the manufacturer, was interested in America's controlling her own tonnage. Unfortunately, these lessons, because only transient, are soon forgotten.

THE MERCHANT MARINE ACT, 1920.

Early in 1917 America entered the World War. Our allies stressed immediately that the winning of that war was impossible unless we could build ships, and more ships, and again more ships. The history of our shipbuilding program and its cost is too well known to Congress to need stressing. With the ending of the war, realizing our world trade needs, Congress passed the very beneficent merchant marine act of 1920, known as the Jones act. The purpose of this legislation, among other things, was to provide for the temporary operation by the Government of such ships as were necessary to maintain and develop trade routes not covered by private enterprise, and to enable the Government to dispose of its war-built tonnage to private owners. This act, wisely constructed with statesmanlike vision, has not achieved what was expected of it, because immediately after its passage world trading collapsed and has remained in a depressed state ever since.

The act was based on a series of sound indirect aids, the keystone of the structure being preferential tariffs to inure to goods imported in American bottoms. The aid of preferential tariffs has not been realized, for reasons well known to all, because of the declination of Presidents Wilson and Harding to abrogate those portions of numerous commercial treaties with foreign nations which forbade preferential treatment of our ships as against the ships of others, as contemplated by section 34 of the Jones Act.

GOVERNMENT OPERATION FATAL TO PRIVATE INITIATIVE.

Thus, we find ourselves to-day with the Government owning 1,442 steel ships, aggregating 7,000,000 gross tons, operating 421 of these ships at an estimated cost to the Treasury the coming year of $50,000,000, with 1,021 ships tied up; we find private operations as well being conducted at startling losses, due not only to depressed world conditions, but to the impossibility of the private owner maintaining himself in the face of continued Government competition.

The purpose of Government operation, as defined by law, was to build up trade routes in order that the Government ships might thus be sold with established good will to private owners. The very method chosen has worked to defeat its own purpose, for in the upbuilding of those routes, the Government has operated ships, and in the operation of ships has driven its potential customers largely

off the seas. Thus, we come to conclusions from which there can be no escape—that since continued Government operation means finally the possible and likely elimination of private operation of American ships, a method must be devised whereby the Government shall end its operation and at the same time insure carriage of American goods under the American flag through private ownership as contemplated by the Jones Act.

MUST BE INDEFENDENT ON THE SEAS.

We no longer can be disinterested in whether or no we shall have an established American merchant marine. The transition from debtor Nation to creditor Nation has settled that; the changing needs of our people in imports and changing demands of others in exports all emphasize that we have no assured future of prosperity if we rely on other than ourselves to carry our overseas trade.

Europe owes us, governmentally and privately, some $15,000,000,000. To pay in gold is impossible; there is not that much gold in the world. The only way Europe can pay (to such extent as she may pay) will be in goods, either raw materials, or manufactured or partly manufactured wares. In turn, we must find new markets, not only to absorb the surplus products which Europe formerly took from us, but to provide for the sale of many of the products which Europe shall send to us in settlement of her debt. These products, if in raw or partly manufactured state, will be brought to completed processes by American labor; but if permitted to flood our own market, and if we do not find a foreign sale for them, will so depress the price of wares at home as to threaten the prosperity of all of our workers.

These newer markets lie across the ocean; to the south in the Western Hemisphere; to the east in China and Siberia. It is the very need of trade in these markets that is the inspiration of the policy of the open door in the Far East, which means nothing more or less than free opportunity, based on merit, for exchange of wares.

SHIPS ESSENTIAL TO FOREIGN TRADE EXPANSION.

It is for these very markets that the nations of Europe which owe us vast sums of money will contend with us. And who can be so blind as not to see that Europe will very properly in her own interest find the way and means to refuse us ships when we need them most, if that refusal spells her control of markets in which we would compete with her for mastery? It is well enough to say that she will not refuse us the ships if we can pay higher freights; but who supposes that foreign governments will not be sufficiently ingenious to work out plans to control their own ships to benefit their national trade and to our dis-

advantages, even if by so doing they bring into their national treasuries possibly lesser freights than we would pay? If a ship in freight receipts could get only $25,000 in Europe and $35,000 here to carry a cargo to the same trade worth $1,000,000, the wise governments of Europe will find ways to equalize the loss in freight receipts to their own carriers, that their national treasuries may be enriched by the sale of the million-dollar cargoes, rather than permit us to get those benefits, even though we would pay $10,000 more for the carriage.

AMERICA ONCE SUPREME ON SEAS.

In our early days we were a seafaring Nation. Our clipper ships excelled the world. With an undeveloped empire to exploit, the spirit of our youth, both from the standpoint of adventure and profit, responded to the inland call. Self-sufficient, self-contained, with abundant natural wealth to the point of waste, we became indifferent to the sea, until shortly after the Civil War those nations who had the greatest need of the sea had so manipulated it that America became, other than coastwise, practically a nonmaritime Nation. The great World War brought about an increase in our production capacity that defied all preconceived ideas of expansion.

There can be no return to a pre-war basis. Increased overheads through increased capacities demand increased consumption in many lines beyond that which can be found in our home country. The debts Europe owes us, their enforced economy for decades to come, and consequently finally diminishing purchases from us, all combine to require our search for new markets. These markets will inure to us only when sureness of delivery, regularity of sailings, and promptness of service from our ports to theirs is guaranteed. Promptness and regularity are the very essence of foreign commerce. The greatest agents of our foreign commerce are ships of our own flag that must fight for cargoes from and to our shores to insure their profitable operation. The semideveloped countries of Europe, the newer countries which are not self-sufficient in their own rights, will be a fighting ground for trade. And here, too, only through control of our own ships can we be insured of steady markets.

FOREIGN TRADE NOW ESSENTIAL TO ENTIRE COUNTRY.

Aside from all this is our own change in domestic needs. Through our great prosperity, we have become, compared to the other nations of the world, a luxury-loving Nation. Coffee, almost unknown as a regular beverage in most other countries, is a several times a day necessity at our national table. Three-quarters or more of all the automobiles in the world are run in America. Their tires alone require untold quantities of rubber. All these luxuries which we im-

port must be paid for by exports, and we must insure that these exports shall reach their destination when and as needed.

The freights alone involved in our expanding commerce mount into the hundreds of millions; and it means much to our national wealth whether we retain these freights collectively to ourselves, or whether we pay them abroad. If John Smith, the individual, spends $50 abroad and receives therefor wares, he is none the poorer; but if the national John Smith spends $50,000,000 abroad that he could retain at home, the Nation is a great portion of that $50,000,000 poorer.

FARMER VITALLY INTERESTED IN EXPORT TRADE.

The farmer has but recently seen what it means to him, in depression in price of his entire production, when exports fail and the surplus of his production backs up at home. We have but lately seen how our Government's expenditure of $20,000,000, plus $12,000,000 from the Soviet Government, for grains to starving Russia marked the beginning of an uprise in price of all our cereal products. From the very time that these purchases began, the price of wheat and corn and oats rose. It is not contended that these purchases alone were responsible for the uprise, but they were one of several factors that resulted in the farmers' depression being alleviated.

Had it not been for the Government's possession of its present steel fleet, these export foods could not have been promptly transported, for there was not immediately available in commission adequate private tonnage. No one has a greater interest in an established American merchant marine than the farmer of our country, because it is in the sale of his surpluses abroad that his entire prosperity is involved. Europe, owing us vast sums, will undertake to make its purchases of surplus grains, when it can, in countries other than our own; and it is only through the control of our own deliveries, insuring that they be expeditious and constant, that we can hope to maintain prosperity for our agriculture.

GREAT LAKES-ST. LAWRENCE PROJECT.

The farmers of our 18 chief agricultural States, with a total population of forty millions, are making a demand to which an affirmative response seems certain—that the ocean be brought nearer to them by the building of the St. Lawrence waterway—a conception that our Middle States will refuse to surrender until it becomes a reality. There can be no certainty of even a fair trial of that project, after it is built, unless we can have profitable operation of American ships; because the carriage in that waterway, which it is my ardent hope will soon be constructed, is but seasonable, and other nations might not afford to work out a system of flexibility of tonnage for

use in that waterway to our advantage. Assured flexibility for use of that project must come from us and us alone. Therefore, when the farmers' dream of the St. Lawrence waterway comes true, as come true it will, it can have no assured life without an American merchant marine, and that merchant marine should be well established before the canal becomes a reality, that companies of sufficient strength may be alive to take advantage of its opening.

For all these reasons, therefore, in the changed condition of man and time, the economic need of our country demands an American merchant marine if we are to insure the prosperity of future generations on the farm, in the mine, and in the factory, which prosperity can only be insured through world markets for our surpluses—markets protected by American ships carrying American wares.

MERCHANT SHIPS ESSENTIAL AS NAVAL AUXILIARY.

We have lately seen the close of a great conference here in Washington whereby it is proposed to limit the burden of expenditure for naval armament on the sorely taxed peoples of the world. Our own America, the most prosperous of all the nations, is herself groaning under naval expense. It is because of a revulsion from increased naval armaments, as well as a cry for release from taxation, that the nations of the world agree on a basis of limitation. Coupled with that are the treaties of the Far East involving the open door in China, which means free opportunity for trade in China. Nations build navies to insure that their merchant ships may carry their wares to all portions of the world unmolested. And so the limitations on our Navy—and the open door in China—both integrally, are a part of our national economic policies. Trade and trade alone are the factors that center world interest in the Far East. The naval needs are to protect that trade.

UNITED STATES NAVY ONCE IMPOTENT WITHOUT FOREIGN SHIP AID.

Having agreed to a naval program of 5–5–3, we can have no thought or hope of actual naval equality unless we can supply and bunker our Navy through our own merchant ships, in time of war, should that unhappily come again. When President Roosevelt sent our Navy around the world, it had to be supplied and bunkered by foreign-flag ships. Our naval giant showed the nations of the world its feet of clay. In 1914, when the World War began, be it said to the shame of America, she possessed but 15 passenger ships of such type as to be of use for naval auxiliary, while Great Britain possessed over 200 such ships. Today we possess 50 to Great Britain's 250. But when age and speed, which are the determining factors in the use of such ships for naval purposes are considered, Great Britain's margin over us is further increased.

112281—22——2

OUR DEFICIENCY IN CASE OF WAR.

Should we unhappily go to war with another country, Great Britain not being a party to the controversy because strict neutrality would be to her interest, we would find it difficult indeed to furnish our Navy with the supply and the fuel ships that it needs, in addition to the convertible type of merchant ship recognized as necessary for the second line of defense. For, while we possess a vast tonnage, that tonnage was built during the war in the best ways immediately possible, in order to get maximum production, but without regard to type or balance; so that while in millions of tons we have a formidable array, in the balancing of our tonnage for either war or peace-time purposes we are sorely deficient. There can be no thought of naval equality with Great Britain until we possess a merchant marine in balance and tonnage equal to hers as a second line of defense to our Navy and as a source of supply and fuel. It is idle to say that the 5–5–3 agreement brings us in proportionate naval equality with the other two nations involved, unless we do that which is necessary to build up a merchant marine of proportionate size and balance to theirs; for all naval authority in the world affirms that the supplemental merchant marine required by a navy is as essential to its operation as capital ships themselves.

FALLING SHORT OF ALLOTED NAVAL RATIO.

There can be no thought of our maintaining even the naval tonnage alloted to us by the limitations agreement if we are to have no adequate auxiliary merchant marine. Great Britain has to-day that adequate merchant marine necessary for any operation of the naval tonnage that accrues to her in the Washington agreement. To the extent that we fail to supply ourselves with an adequate merchant marine of the type and number to balance the naval strength allotted to us in the Washington conference, we should do away with the maintenance of capital naval ships. We can not fool ourselves; we only are on a 5–5–3 naval basis with Great Britain and Japan to the extent that we possess on a 5–5–3 basis merchant marine of the type and kind necessary for naval aid.

As it stands to-day, Great Britain will immediately take her place both with naval and auxiliary merchant ships in the 5–5–3 program. We can not take ours to-day, nor for years to come. We still must create many essential types of merchant ships.

When we use Great Britain as an example we do so in the spirit of the greatest friendship, for, happily, no one can ever have a thought of war between the two Greatest English-speaking nations; but rather, we use her as an example, because Britain, in her attitude in the late conference, showed that she was as desirous as we that

America should have naval equality with her, and she knows, better than we, that there can be no naval equality without the proper merchant marine.

PRESENT FLEET COSTLY WAR INHERITANCE.

We came into the possession of the vast fleet we own, built under the hysteria of war, for the carriage of supplies of our Army and the Navy stores. For the carriage of our men we had to rely chiefly on our allies and on seized enemy tonnage. We all realize now that this war-built tonnage, inadequate for peace or war, could have been built to serve a wider and surer purpose at infinitely less expense if created during times of peace. Shall we again be involved in such haste and loss by failing to learn the lesson which has just been taught us? Wherefore, whether we view it from the standpoint of peace or the needs of war, America must develop its merchant marine.

The Jones Act wisely provides, in its preamble, that its purpose is to develop a merchant marine as an aid to the Army and Navy in war and for the development of American trade in times of peace. We are not able to accomplish these purposes at the present time. Startling as it may seem, in spite of the vast tonnage we possess, we are not now positioned to protect our peace-time trade or to properly care for our Army and Navy in times of war.

Let us explore why this is so.

OUR PRESENT SITUATION.

We have touched on the lack of balance in our fleet. We will not speak of the vast number of tons of wooden ships; the sad story of this is known to all—they never should have been built; they were the war's greatest shipping blunder, an error against which we had been warned but which warning we refused to heed. They must be charged off practically as an entire loss, a monument to folly. They can not be used in profitable normal operation, and merely hang over the market as possible pirates in times of better days, depressing thereby the potential value of the steel fleet without offering the slightest hope of continuous operation even for short periods. The high cost of insurance, the uneconomic machinery, the great amount of fuel required in proportion to carrying capacity, make these ships in every way impossible. They should be considered as not existing.

DEFICIENCY IN HIGHER TYPES OF SHIPS.

The Government-owned steel fleet is divided as follows:

	Gross tons.
Passenger ships	500,000
Freighters	6,000,000
Tankers	550,000

Of the passenger ships, 300,000 tons are ex-Germans, of which 140,000 tons are so old as to be of no potential continuing value; their life is but short, and they can be, by and large, only academically considered as asset. Of fast cargo ships, we have but 15 ships of a total of 116,000 gross tons.

In fact, in passenger tonnage, both governmental owned and privately owned and including ships designed for the short runs to the West Indies, we have but 80 good ships, aggregating 600,000 tons; while of fast cargo ships of both classes we have but 53 ships of 390,000 tons.

To have a merchant marine that can effectively meet 50 per cent of all our peace-time carrying needs, we require a million and a quarter gross tons of passenger ships, and about the same amount of the faster cargo ships.

SURPLUS OF SLOW FREIGHTERS.

Of our 6,000,000 tons of freighters, about half the steel tonnage is good tonnage, comparable to the best in the world. The other half ranges from fair to not usable for purposes and should be either sold abroad in such trades where we have every assurance it will not find itself in competition with our ships, or dismantled. We must not fool ourselves. This tonnage was built during the war days from such means and in such ways as we had quickly at hand. The cry was for maximum tonnage regardless of its cost of construction or subsequent operation—for war knows nothing of economies—and thought was given only to quantity production for war purposes and not to the practicability and economy of operation of the ships in times of peace. Fairness compels the statement that, by and large, it would have been impossible to produce this quantity of tonnage had the measure of production been convertibility for peace-time needs.

HOPE TO GET TONNAGE INTO PRIVATE HANDS.

Of the 6,000.000 tons of freighters the Government possesses, it is the hope of the Shipping Board that ultimately a great measure of the 3,000,000 good tons will find itself in the hands of American owners, should the legislation here proposed be adopted. It is doubtful if, under the happiest conditions, the American flag will need the 3,000,000 good tons in its entirety, and ways and means must be found to dispose of such of the good tonnage as remains, so that American interests will not be hurt. Under no circumstances must the surplus of good tonnage that America can not absorb be disposed of so as to bankrupt those who buy from the Government at current prices.

THE MENACE OF THE SURPLUS.

Automatically the 3,000,000 poor tons must be done away with. Part of it can be used by selling to Americans the hulls at low figures for conversion to types of freighters of which we are not possessed. The balance may either be sold in small quantities in local trades abroad, where, because of shorter runs and cheaper labor, local operation may be possible, or it must largely be dismantled. For, if we permit a potential surplus to remain, with the possibility of its use in only abnormally prosperous times when any tonnage can be profitably operated, the burden of loss will fall on the good tonnage in times of adversity without full enjoyment of profit in time of prosperity, and thus we depress the price of all of our tonnage, and so it will come to pass that we shall liquidate the whole for less than we could liquidate the good part.

It is the unneeded surplus, in ships as in all else, that determines the market, and the same circumstances that forced some farmers to burn their corn last winter demands that, at least in so far as the uneconomical 3,000,000 tons of freighters go, we recognize that one of our problems is to froce its disappearance from the market. If we are to induce private investment in American ships, it must be under an assurance as to what will be done with the surplus tonnage, plus an assurance that the Government will retire from operation, for private owners can not live and can not finance themselves with those two swords of Damocles hanging over their heads.

GOVERNMENT OPERATION EXPENSIVE AND UNSUCCESSFUL.

The Shipping Board, under mandate of the Jones Act to maintain necessary trade routes, is operating 421 ships at an annual loss of approximately $50,000,000. This includes the cost of lay-up, but not the cost of all necessary repairs, though the board is doing such repairs as it can within the figure named. There should be no quarrel at this expenditure of $50,000,000, because thereby we are keeping the American flag flying into all ports of the world, and the American manufacturer and producer is assured of carriage for his wares to his markets when his needs demand. For the year 1921, America carried under her own flag 51 per cent of her total foreign trade. This figure seems to indicate a result much more favorable than the real facts warrant.

If we deduct from our foreign water-borne trade that which is carried on the Great Lakes, in vessels which for the present are immured there, and if we subtract the cargoes carried between this country and the countries bordering on the Caribbean which have no merchant marines of their own and whose trade, therefore, is not

competitive, there will remain the traffic in general cargo to overseas continents and nations having merchant fleets, and competing with us for these particular cargoes.

OUR STANDING IN COMPETITIVE SEA CARRIAGE.

In this figure, which represents our real competitive trade, the American ship makes a poor showing. Our exports in this trade are now three and one-half times our imports. Of these exports, foreign ships carried over the entire year an average of 71 per cent, while the American ship carried but 29 per cent, and only reached this figure by virtue of the large amount of coal exported in American ships during the British coal strike.

For December, which represents a recent normal month, foreign ships carried 76 per cent of our overseas general cargoes and 24 per cent was left to be carried in American ships. This 24 per cent measured our success in competing against foreign nations for the carriage of our products to the markets of the world. Of the 24 per cent, 19 per cent was carried in Shipping Board vessels and 5 per cent by private American owners.

MUST CARRY HALF OUR OWN OCEAN TRADE.

It must be the purpose and the aim of America—and the Shipping Board emphasizes its belief that this aim can be accomplished—to carry at least 50 per cent of our foreign trade, other than with contiguous and nearby countries, under the American flag privately operated. The suggestions made to the Congress by the President contemplate within a decade, at the cost estimated by him, that 50 per cent of such trade will be carried under the American flag privately operated. We are today carrying 87 per cent of our oil trade with Mexico, and 57 per cent of the Caribbean trade in our own ships. But neither the needs of trade with Mexico nor the Caribbeans calls for that type of ship which is the very backbone of the second line of defense of our Navy; nor does the trade with Mexico or the Caribbean call for that type of ship which is the forerunner of world trade and world intercourse—the fast passenger and combination passenger and cargo ships.

Of the 24 per cent of world carriage in American bottoms here referred to, it is appalling to think that 19 per cent is carried in Government-owned ships and only 5 per cent in privately owned ships, when it is considered that the Government, through the Shipping Board, admits its inability to operate on an equally efficient basis in competition with the private ships of the world. Fifty million dollars annually it is costing to keep the Shipping Board boats going—$50,000,000, not including, however, interest, full insurance, or depreciation on invested capital. For any private business to say that it was losing $50,000,000, without considering interest on capital investment, full insurance or depreciation, would mean that the managers of that private business were attempting to deceive their stockholders by understatement. In the same way it is a deception to the American people to represent that the Shipping Board is losing but $50,000,000 per annum, when that $50,000,000 is lost in operations only and does not consider capital invested.

WHERE EMERGENCY FLEET HAS ALREADY PAID FOR ITSELF.

There was, however, good reason why the Government, at the end of the war, should, through the Shipping Board, have established governmental operation. Not only should there be no apology for this, the facts warranted it, and the time will come when it will prove to have been an act of courage and vision on the part of our people. But the continuance of this Government operation is now as unforgivable as its establishment was sound.

What do we mean by this seeming contradiction? When the World War was over, there was a great scramble on the part of all the maritime nations to use their own tonnage for their own peace-time needs. Had America not possessed the tonnage she built during the war, in the two years of prosperity that followed the war we would have lost largely of markets that were ours, much as their need would have been for our wares, because there would not have been tonnage available to carry our goods. Those who needed them would have sent us their ships to the extent that they needed goods, but even then many would not have had enough ships to carry that which they alone needed, and others would not have furnished us their surplus ships for our trade aggrandizement at their own expense.

GOVERNMENT POST-WAR OPERATION NECESSARY.

The vast sums we saved to ourselves in freights alone, which, through faulty governmental bookkeeping, was converted to construction charges, would have shown during that period that handsome freight returns inured to the Public Treasury. Private operation at that time would have been impossible; there had been but little overseas carriage under the American flag by private owners before the war and private capital therefore would not have been available at the war's conclusion quickly enough to operate successfully the Government-owned ships, even had the Government sold those ships at fair prices to private owners. So that, in order that the war-built fleet might immediately come into America's peace-time needs, the Government was forced into operation—an operation that from that time to this, through the lack of private facilities, has

been the greatest insurance we have to our future overseas prosperity, which involves our entire national prosperity.

GOVERNMENT OPERATION INHERENTLY VICIOUS.

We believe that the present operation by the Shipping Board is fast approaching as efficient an operation as Government can give. But any free competition with the privately owned shipping of the world, through successful Government operation, the Shipping Board avers is an impossibility. The restrictions of congressional legislation, the demands of varying sections of the country, the limitations on free play from which private business does not suffer, make it impossible for Government-owned shipping to compete with the private ships of the world.

GOVERNMENT TAKES ALL CHANCES OF LOSS.

When the present board took office, June 12, 1921, it found the ships of the fleet being operated by managing agents, to wit, private operators who were paid fees ranging from 2½ per cent to 5 per cent of the gross receipts for supervising the operation of the ships. It must not be supposed that this commission by any means represented gross profit—in fact, practically all managing operators, since the present board has been functioning, have lost money. The managing operator had to pay out of his commission rent, clerk hire, expense of freight solicitation, superintendence of deck, engine, and victualing departments, and many other sundry expeses.

When the commissions were originally declared, freights were three or four times as high as they are now, so that in effect to-day the operator's commission has been reduced by 66⅔ to 75 per cent, even though his ships carry the same number of tons of cargo. To increase the commission would affect the situation very little, because the system in its very inception is uneconomic and vicious for the reason that the managing operator, having no direct interest in the operation of the ship, having no direct responsibility, having no sense of building for himself for the future, is in such state of mind that he operates Government-owned ships with vastly different vision and inspiration than he would his own.

DEFECTS OF THE SYSTEM.

The system which we found in vogue when we came into office left itself open to all sorts of vagaries in management, to all kinds of chicane and unreliability. The managing operators had organized private stevedoring companies, private ship-chandlering companies, and similar devices by which to make hidden profits, to increase the meager compensation which the Government allowed them. The

very spirit of making hidden profit on the part of an agent to a principal means a strained relationship all along the line. Such attitude and actions on the part of the managers were known to the captains and crews of the ships, who in turn felt neither pride nor proper responsibility in the trusteeship that was theirs. The facts were so notorious that to mention them is but to call attention to that which is obvious to everyone who has given the slightest study to the subject.

Let it not be felt by this seemingly black statement that we wish to reflect on the integrity of the operators as a whole. But few of them we believe have consciously done wrong. The very small commission allowed them made it necessary for them to find other sources of profit out of the responsibility that is theirs. These sources of profit came into life so gradually that they failed to be noticed and the new board claims no great credit that when it came into office it was able to visualize the whole picture because it saw the picture complete.

AN IMPOSSIBLE PROCEDURE.

Nor can the individual agent be chargeable with the fact that initiative and sense of responsibility are lacking in the transaction. It would be impossible. It is not within human realm to create in such a transaction a sense of initiative and responsibility. The only reason that the managing operator continues in his connection with the board (and I think I speak the view of the managing operator that he believes as little in the system as anyone) is that he hopes by cooperating with the board in the management of the ships to keep alive America's merchant marine until Congress can adopt a national policy that will insure its life. The managing operator, strange as it may seem with the charges that are made against the system, is by and large performing a really helpful service.

PAST ABUSES CORRECTED BY PRESENT BOARD.

The present board, when it took office, cognizant in a lay way of the situation, which indeed was promptly brought to its attention by the prior chairman, took steps to right the condition in so far as possible. We believe we have built up an organization in the Emergency Fleet Corporation that is measurable to any private organization in the world, but for reasons which will develop, that organization is discouraged by the impossibility of creating any proper operation through government ownership. The new board and the trustees of the Emergency Fleet Corporation set to work early last summer to correct the evils which have here been enumerated, and we stand firm in the statement that these evils have been eliminated,

INTENTIONAL SECOND EXPOSURE

been the greatest insurance we have to our future overseas prosperity, which involves our entire national prosperity.

GOVERNMENT OPERATION INHERENTLY VICIOUS.

We believe that the present operation by the Shipping Board is fast approaching as efficient an operation as Government can give. But any free competition with the privately owned shipping of the world, through successful Government operation, the Shipping Board avers is an impossibility. The restrictions of congressional legislation, the demands of varying sections of the country, the limitations on free play from which private business does not suffer, make it impossible for Government-owned shipping to compete with the private ships of the world.

GOVERNMENT TAKES ALL CHANCES OF LOSS.

When the present board took office, June 12, 1921, it found the ships of the fleet being operated by managing agents, to wit, private operators who were paid fees ranging from 2½ per cent to 5 per cent of the gross receipts for supervising the operation of the ships. It must not be supposed that this commission by any means represented gross profit—in fact, practically all managing operators, since the present board has been functioning, have lost money. The managing operator had to pay out of his commission rent, clerk hire, expense of freight solicitation, superintendence of deck, engine, and victualing departments, and many other sundry expeses.

When the commissions were originally declared, freights were three or four times as high as they are now, so that in effect to-day the operator's commission has been reduced by 66⅔ to 75 per cent, even though his ships carry the same number of tons of cargo. To increase the commission would affect the situation very little, because the system in its very inception is uneconomic and vicious for the reason that the managing operator, having no direct interest in the operation of the ship, having no direct responsibility, having no sense of building for himself for the future, is in such state of mind that he operates Government-owned ships with vastly different vision and inspiration than he would his own.

DEFECTS OF THE SYSTEM.

The system which we found in vogue when we came into office left itself open to all sorts of vagaries in management, to all kinds of chicane and unreliability. The managing operators had organized private stevedoring companies, private ship-chandlering companies, and similar devices by which to make hidden profits, to increase the meager compensation which the Government allowed them. The

very spirit of making hidden profit on the part of an agent to a principal means a strained relationship all along the line. Such attitude and actions on the part of the managers were known to the captains and crews of the ships, who in turn felt neither pride nor proper responsibility in the trusteeship that was theirs. The facts were so notorious that to mention them is but to call attention to that which is obvious to everyone who has given the slightest study to the subject.

Let it not be felt by this seemingly black statement that we wish to reflect on the integrity of the operators as a whole. But few of them we believe have consciously done wrong. The very small commission allowed them made it necessary for them to find other sources of profit out of the responsibility that is theirs. These sources of profit came into life so gradually that they failed to be noticed and the new board claims no great credit that when it came into office it was able to visualize the whole picture because it saw the picture complete.

AN IMPOSSIBLE PROCEDURE.

Nor can the individual agent be chargeable with the fact that initiative and sense of responsibility are lacking in the transaction. It would be impossible. It is not within human realm to create in such a transaction a sense of initiative and responsibility. The only reason that the managing operator continues in his connection with the board (and I think I speak the view of the managing operator that he believes as little in the system as anyone) is that he hopes by cooperating with the board in the management of the ships to keep alive America's merchant marine until Congress can adopt a national policy that will insure its life. The managing operator, strange as it may seem with the charges that are made against the system, is by and large performing a really helpful service.

PAST ABUSES CORRECTED BY PRESENT BOARD.

The present board, when it took office, cognizant in a lay way of the situation, which indeed was promptly brought to its attention by the prior chairman, took steps to right the condition in so far as possible. We believe we have built up an organization in the Emergency Fleet Corporation that is measurable to any private organization in the world, but for reasons which will develop, that organization is discouraged by the impossibility of creating any proper operation through government ownership. The new board and the trustees of the Emergency Fleet Corporation set to work early last summer to correct the evils which have here been enumerated, and we stand firm in the statement that these evils have been eliminated,

in so far as time and knowledge and effort and limited organization, due to needs of keeping within appropriations, have permitted. I feel I can state without fear of contradiction that the improvements made since last June in the operations of the board's fleet command the admiration of shipowners of the world throughout.

LIMITATIONS OF GOVERNMENT OWNERSHIP.

But let us not be deceived. Conditions still are bad and will ever remain so under Government ownership because of the impossibility of competing with private operation. Both the sense of initiative and the responsibility found in private operations are lacking. Initiative is lacking because neither those employed by the Fleet Corporation nor the managing agents, nor their employees in turn, have the slightest notion that they are building up anything permanent for themselves. At any time Congress may see fit to so reduce salaries that men of ability can no longer afford to stay with the Fleet Corporation. In other departments of the Government it is considered somewhat of an honor to hold office; to be connected with the Shipping Board, in the words of Congress, as often expressed on the floor of both Houses, is a sort of semidisgrace. Small wonder then that it is exceedingly difficult to keep up that inspiration which is necessary for sure and permanent accomplishment!

HANDICAPPED BY GOVERNMENTAL RESTRICTIONS.

There is no privately owned corporation doing an infinite fraction of the volume of work of the Fleet Corporation that does not have more high-salaried men than is permitted to the Fleet Corporation. Men will not serve the Fleet Corporation for honor alone, for there is little or no honor to be found there in public recognition. The few high-salaried men we have are, however, making actual sacrifices in order to aid the situation, as evidenced in testimony given before the House Appropriation Committee but lately. Inspiration is further lacking because necessarily, in a Government-owned fleet, the influences of selfish interests and localities which desire special privileges can not at all times be resisted, and should surrender be made to such situations, inspiration would be compromised with.

GOVERNMENT CAN NOT COMPETE ON SEAS ON EQUAL BASIS.

There are many things necessary to successful ship operation in which the Government can not engage. For instance, often it becomes necessary to buy and sell merchandise in order to insure cargoes. The most successful fleets under the American flag are those of the United Fruit Co., the United States Steel Corporation, the Bethlehem Steel Corporation and the Standard and other oil companies. The owners of these fleets are engaged in trading and thus

insure full tonnage. No Government operation can do this. The Shipping Board at the present time is negotiating for the sale of several ships to a concern which in turn is negotiating with the Chilean Government, whereby the American concern sells the Chilean Government 300,000 to 600,000 tons of coal a year for a term of years, during which time it takes 300,000 to 600,000 tons of nitrates in exchange. Thus those ships are assured of cargo through trading connections.

I do not enter into a discussion of the merit of private ownership against that of public ownership in anything save ships. In the Post Office, in the Army, in the Navy, Government ownership can prevail because a monopoly is created. Should the Government desire to take over the railroads, it could create a monopoly which would give exclusive privilege to Government operation until such time as efficiency might be brought into life; but shipping is a different thing. The Government must ever be in free competition with privately owned shipping of the world. No monopoly can be created during the existence of which efficiency can be brought to life, and in the competition between Government ownership on the part of our Nation, and the initiative and sense of responsibility concomitant with private ownership in others, failure is foredoomed.

RISK OF GOVERNMENT COMPETITION TOO GREAT FOR CHARTER METHOD.

The new board, recognizing the viciousness of the managing agency system adopted, as one of its earliest policies, that of placing the ships on a bare-boat charter basis, if sale was impossible. Bare-boat charter means to rent the ship for use to private operators, the private operators bearing all expenses of manning, fueling, victualing, stevedoring and repairs. The owner merely rents the use of the bare ship and supplies hull insurance. The charterer bears all the losses of the operation and to him all the profits accrue; and hence, there is, by and large a measure of incentive such as is found in private ownership.

In spite of all efforts on the part of the board to charter ships under such a plan, the net result has been the chartering of but 38 ships at the small compensation of 50 cents per ton per month, an amount just about sufficient to offset insurance, interest, and depreciation, if the ship were privately owned, without leaving any profit to the owners in the transaction. The interest, insurance, and depreciation, here estimated, is based on world prices of merely $30 per ton.

FORCED INTO INCONSISTENT POSITION.

The fact that the board was not able to carry out its policy of going on a bare-boat charter basis is due to the fact that it has been impossible to bare-boat charter the ships. Under the merchant ma-

rine act of 1920, it being obligatory on the Shipping Board to maintain certain routes, the board has been forced to continue in a system of which economically it does not approve; the board has reduced its operations to 421 ships in order to keep within the meaning of its interpretation of the Jones Act. It has, in so far as time has permitted, corrected the abuses in the managing agency system complained of, but the inherent lack of inspiration and lack of responsibility can never be cured under this system.

With world shipping depressed beyond anything ever known, with the fear of competitive Government operation financed out of the depths of the Public Treasury, with the bugaboo of a vast unliquidated Government-owned tonnage hanging over the market, charterer and buyer alike find no incentive for risk. It is a drab picture which I draw, but I aver that we can only look forward to benefiting from the advantages of improved world trade conditions, when they may come, by now putting our house in order to transfer our operations and our fleet into private hands.

DIRECT GOVERNMENT OPERATION EVEN WORSE.

The only other alternative is worse than the present dire situation; that is, direct operation by the Government instead of through managing agents. If there is one thing worse than Government ownership, as we now have it, it is ownership and operation by the Government. The reason for this is obvious. If we find it difficult to create an organization for the Government merely to supervise the operation of private agents, how difficult and impossible would it be to set up a proper operation for so complex a business as shipping, to be operated throughout every corner of the world.

GOVERNMENT OPERATION MEANS EVENTUAL DISAPPEARANCE OF FLEET.

One of thet most formidable objections to continued Government operation to-day—an objection that is insurmountable—is that the ships owned by the Government would in due course wear out, even with proper repairs. No one in Congress suggests, nor have I ever heard it suggested from any source, that the Government should build ships to replace those that are worn out, or that the Government should build new type ships. If there is one unanimous opinion in the country regarding our merchant marine it is that Government construction of merchant ships should cease. Thus the continued operation by the Government of its present fleet would be making no progress toward a premanent policy on the seas or a renewed and enduring merchant marine. This one phase alone calls for legislation along the lines proposed to insure the Government's retirement from ownership and operation.

Permit me to stress that unless the Government rebuilds, even if the Government could stay in operation and give a good operation, which I deny, within less than 20 years the fleet would be worn out and gone. We would be building up no American merchant marine, for, with the Government continuing to operate, private operators would be driven out of business under the American flag. They could not stand the competition. The Government would not be building new ships, and all that would have been accomplished would be declining governmental operations under the American flag, with the assurance that the ultimate be would America driven from the seas. Thus the Americans who took to the sea as a profession would ultimately find America without ships of its own flag, and would be driven to ship on foreign ships at foreign wages; whereas by insuring private operations, which will be continuing, we insure American seamen on the sea at American wages. Further, if the Government continues in operation without the legislation asked for, and drives the private owner off the sea or prevents his growth and assuredly prevents new capital from coming into existence, there will be no building by the Government, or any one else under the American flag, of those types of ships so sorely needed to balance our fleet and to aid our navy in time of war.

Continued Government operation is a solution only from one standpoint. It solves the problem in one way, to wit, that the fleet shall be operated by the Government until it is worn out and thus assure the elimination of the American flag from world commerce.

GOVERNMENT AID ESSENTIAL TO END LOSSES.

I do not desire by compromise for one moment to escape the responsibility of making the assertion that there is no future for the American merchant marine, private and Government, save bankruptcy, unless private ownership is fostered and expanded and the Government retire. No philosophy of sophistry, no economic theories can change the proved facts of experience of the Shipping Board. Those of us who spend our hours in the Shipping Board claim to be as patriotically moved as any men on this subject. Our contact with this thing is closer than that of others, and I am sure the members of the Shipping Board will join with the trustees of the Emergency Fleet Corporation in attesting that I truly record here our experience.

While the seeming loss of Government operation at this time is $4,000,000 a month, let us remember that the fleet is growing no younger. Each day adds age to it and if these operations be not quickly ended, the ships, through the lack of responsibility felt regarding them on the part of the operators and crew alike, will depreciate largely in worth.

112281—22——4

LOSS BY DETERIORATION.

With the way the ships are handled under the present lack of responsibility, as will be proved to you in testimony later to be given by Shipping Board experts, regardless of how world conditions improve and freights increase, the loss of the Shipping Board will be constant and possibly accelerated, through the vast repairs to the ships that will be necessary as time goes on.

We are living in a fool's paradise if we think the loss is merely that which we can measure in the monthly balance sheet; and even this loss of $50,000,000 per annum fails to take proper account of interest, depreciation, or full insurance.

How can private enterprise live in such competition? To continue it spells the death of private enterprise and in turn Government operation will wither. We can no longer procrastinate in choosing our course. Congress must now decide whether there shall be opportunity given to turn this thing into a great asset of peace and an essential of war—as we believe it can be turned—or whether the festering sore, through inaction and self-deception shall be continued and grow worse.

SALE OF SHIPS IMPOSSIBLE WITHOUT AID.

The Shipping Board's loss of $50,000,000 a year, we aver, can be ended by a much lesser expense from the Treasury, through the direct and indirect aids proposed, and only in this way can the Government's good ships find a market by making private operation profitable. As quickly as possible we feel that the good ships should be liquidated, the poor ships disposed of, the Government put out of operation. The proposals made by the President contemplate that at an ultimate maximum expenditure of $32,000,000 per annum in direct aid, and through various forms of indirect aid, we will finally dispose of our ships for private operation, at a total annual cost of something over $40,000,000; and thus shall we end an operating loss of $50,000,000, give our people a better and a more assured service on the seas than America has ever enjoyed heretofore, successfully turning a war-time and war-built enterprise into a great instrument of peace-time profit and peace insurance.

At the present time there is, by and large, no market for our vast tonnage. Much of this tonnage cost over $200 per ton to build. About 1,300,000 deadweight tons were sold at prices averaging $177 per ton since the end of the war; 170,000 tons have been paid for; on 390,000 tons the purchase has not been completed and the ships are again in the possession of the board. In the case of 740,000 tons, we either must give vast relief on the amounts owing, or take the ships back. So that, compared to the total tonnage built by the

Government, practically no tonnage has been disposed of. After months of deliberation, in January last, the board decided to undertake to sell its tonnage at world market prices; and on its steel freighters, after careful investigation, it found this to be a minimum of $30 per ton for the best tonnage. So depressed is world's shipping at present, and especially so timid are operators under the American flag, that we have even at these prices been able to dispose of but 100,000 deadweight, or 65,000 gross tons. Nor can we see any great hope of disposal of an appreciable part of the total tonnage we have, unless, through Government aid, the difference between our operation and that of the foreigner is provided for, and thereby automatically the competition of wasteful Government operation removed.

AID NEEDED TO OVERCOME HIGHER OPERATING COSTS.

Private ships under the American flag must be governmentally aided, because of the higher standards of living of American labor, in the shipyard and on the ship. The man who builds ships on land works in America with a higher wage; the man who mans our ship is paid more and sustained better than the foreigner. Who in America would have it different? Who in America would question that the prosperity of one should be the common prosperity of all, and that these higher standards should prevail with all the people of our country? It is of prime importance, if we are to have an American merchant marine, that that merchant marine consist of ships built by American workmen in American yards; because, if we are once again engaged in war, unless we control our own yards and our own shipbuilding, we will be lacking in the means of instant and sure repair and renewal.

FAST LOSING ART OF SHIPBUILDING.

With the limitations of armament and the holiday in naval shipbuilding, the development of the private shipyard becomes more essential than ever, or the art of shipbuilding will be lost to America, and in time of war those nations of the world who kept their shipbuilding alive through overseas carrying will have an unmatchable advantage against us. So, with changed conditions, from the standpoint of our country's security alone, it is essential that we foster a private merchant marine built by American workmen.

Therefore, with higher costs of living and with higher capital charges, if we grant that for war and peace-time purposes we need a merchant marine, the Government must, through aid to shipping, direct or indirect, or both, make good the difference between these added charges under the American and other flags. And further,

only through aid to private shipping can we hope to end the great loss through governmental operation now existing and liquidate the government's fleet.

AID PROPOSED IN THE MERCHANT MARINE ACT, 1920.

When the present Shipping Board came into office, one of its major duties was to study and bring into life the provisions of the merchant marine act of 1920. This act provided for a sound system of indirect aids to American ships, chief of which was section 34 heretofore referred to, which called for preferential tariffs on imports when carried in American ships. For reasons before given, President Wilson refused to abrogate the treaties, which made impossible the functioning of section 34. The present Shipping Board unanimously memorialized President Harding to do that which President Wilson had refused to do. After long deliberation and careful investigation, President Harding concurred with President Wilson, and thus we have the will of both Democratic and a Republican President—the greatest nonpartisan concurrence there could be—that, for the time being at least, the provisions of section 34 can not be carried out.

MUST OVERCOME LOSS OF SECTION 34.

Removing section 34 from the Jones Act, President Harding, whose interest in the establishment of an American merchant marine is second to that of no living man, realized that the very heart and essence of the act was gone, and that without the benefits of section 34, the other benefits would not be sufficient to accomplish the needed purposes. The President coupled his declination to make possible the invoking of section 34, with a request to the Shipping Board that it make a study of such aids as should be substituted to replace the beneficent provisions of the relegated section.

THE PRESIDENT'S PROPOSAL.

With these problems before it, and with this promise unanimously adopted, the Shipping Board approached the study of the legislation, which, when completed, the President proposed to the Congress.

The President's own first thought in substitution of section 34 was that the Government step into the breach created by the nonexistence of the benefits of section 34, by offering direct aids in the form of subsidies to American ships. For that purpose the President devised the plan that 10 per cent of all tariffs collected be placed in a fund for the upbuilding of America's privately owned merchant marine. How this very sound idea is to work out is best expressed by the President himself in his special message of February 28 to the Congress, as follows:

The proposed aid of the Government to its merchant marine is to have its chief source in the duties collected on imports. Instead of applying the discriminating duty to the specific cargo, and thus encouraging only the inbound shipment, I propose that we shall collect all import duties, without discrimination as between American and foreign bottoms, and apply the heretofore proposed reduction to create a fund for the Government's aid to our merchant marine. By such a program we shall encourage not alone the carrying of inbound cargoes subject to our tariffs but we shall strengthen American ships in the carrying of that greater inbound tonnage on which no duties are levied, and, more important than these, we shall equip our merchant marine to serve our outbound commerce, which is the measure of our eminence in foreign trade.

DIRECT AID ALONE NOT ALWAYS A SUCCESS.

The Shipping Board immediately caused a study to be made of the history of direct aids to shipping. This study has been circulated among the Members of the Congress. There can be no doubt that the study shows that direct aids have failed quite as often as they have succeeded. Illuminating and parallel examples can be found in the cases of Japan and France. Similar cash subsidies resulted in Japan building up a most potent merchant marine for its purposes, while France fell far short of that desideratum. Obviously, therefore, there must have been other factors inherent in each of the individual countries that made for the differing results. Thus the Shipping Board soon came to the conclusion that it was problematic whether direct aids alone would accomplish the aims in mind.

DIVISION OF THOUGHT AS TO METHODS OF AID.

There have always been two great schools of though in connection with Government aid to shipping—that which stands for direct aid in the form of cash subsidies, and that which stands for indirect aids, where, through favorable legislation, preference is given to the home flag.

The opposition to Government aid to an American merchant marine has not always sprung from honest or disinterested purposes. The foreigner who has had the benefit of the profits that inured from carrying America's trade, the American shipowner, banker, and importer who has profited through his connections with foreign carrying companies, have all, consciously or unconsciously, properly or improperly, been opposed at times to the establishment of an American merchant marine. When direct aids have been proposed, the honest proponents of indirect aids have cried that only their methods should be adopted, and those with selfish purpose and dishonest interests have joined them in their cry. When indirect aids have been proposed, the proponents of direct aids have insisted that only their methods should be tried, and those with selfish and dishonest interests have joined on such occasions to the contra-view.

SINISTER FORCES AT WORK COVERTLY.

We hold no quarrel with the foreigner, who would do all he can to prevent the establishment of an American merchant marine, that the profit of our carriage might inure to him. But we ask that there at least be a public understanding of the sinister forces that are at work—forces that can not be measured, that can not be detected, that can not be cornered—who use their instruments subtly among honest men. The day has come when we must, in common understanding, approach this subject. Happily the Shipping Board, after long and careful study, came to the conclusion that a proper measure of Government aid to accomplish the purposes in mind could only come through the use of both direct and indirect aids, throwing the burden onto the indirect aid.

COMBINATION OF BOTH METHODS IN PROPOSED LEGISLATION.

Under the chairmanship of Commissioner Lissner, in conjunction with the chairman of the Shipping Board, and aided by an ample staff of experts, the Shipping Board made a study of all forms of indirect and direct aids ascertainable. A plan has been worked out whereby a very sound system of indirect aids is proposed. It is purposed in addition to give direct aid to a sufficient extent to make possible in good years earnings of 10 per cent or more for ships—surely not a very large earning, where capital has to be attracted in competition with other enterprises. Beyond 10 per cent the earnings will be divided equally between the owner and the Government, until all of the direct aid shall have been paid back into the merchant marine fund to be created for the aid of shipping, after which the ships retain all of the surplus earnings, if any. If the indirect aids proposed should be sufficient in any annual period to bring proper returns, there would be no direct aid retained. Thus the burden of the aid is thrown on the indirect.

ALL POSSIBLE INDIRECT AIDS RECOMMENDED.

Thus the proponent of indirect aids can have no occasion to quarrel with the proposals; for, as the Shipping Board recommends every practical indirect aid possible to give, if those indirect aids should not be sufficient, no one can question that the Government should, from its Treasury, if ships are a national necessity, if the Government's loss in operation is to be ended and its fleet sold, help to the extent of making possible earnings of 10 per cent in good years. The proponents of direct aids certainly can raise no objection to indirect aids being first called into being, reliance being placed on direct aids only if the indirect aids are not sufficient. Therefore, in the legislation proposed by the President to the Congress through the Shipping Board's study, there can be no quarrel between the two schools of Government aid.

NO OPPORTUNITY FOR PROFITEERING.

This legislation proposes a very proper profit limitation—10 per cent on the earnings of ships, and after that, equal division of earnings between the owner and the merchant marine fund until the subsidy is returned. Surely such an allowance of earnings can not be called profiteering, because, while the ships are allowed a net profit of 10 per cent before beginning to return the subsidy, and thereafter are allowed half the net profits until the entire amount of the subsidy is returned, nowhere in the Shipping Board study is it proposed that ships be protected against loss. Under the proposal made, including the right of the Shipping Board to make 10-year contracts, there will be many years during which, with all the aids given, ships will lose money, and it is universally conceded that in the shipping business, through the years of plenty and years of famine, the average that any ship can earn through the proposed Government aid during the term of its 10-year contract is a very modest sum.

NEED FOR ADEQUATE AND SUFFICIENT ASSISTANCE.

There is no hope of the establishment of a merchant marine through insufficient aid. Rather than insufficient aid, let us have no aid at all and leave the question open until such time as we will give sufficient aid to insure our purpose. The achievement of our purpose should be our aim, not to fool ourselves and others and achieve failure by doing too little when we seem to be doing enough. We should take advantage at this time to write on our statute books every possible indirect aid that can be uncovered and which can properly be used. The Shipping Board believes that in its proposed study it has done so. This legislation can be constantly amended, if new forms of indirect aid be found, until finally the need of direct aids disappears. But until the indirect aids have proved what they can do, until American ships have a larger volume of business, we must have some measure of direct aid, however, with proper limitation on profit.

We must do enough or nothing. We seek substance, not shadows. To do less than enough is merely to have sold out to the defeatists who would have no American merchant marine. We must stand firm for no compromise less than that, which is sufficient, but we should yield nothing to possible profiteering. The Shipping Board stands boldly in its affirmation that its study and its proposal, unique though it is, would accomplish these purposes.

INDIRECT AIDS.

I shall not undertake now to discuss, save briefly, the various measures of indirect aids proposed. These will be covered in fullest detail, subject to your cross-examination, by those who are expert. I shall, however, briefly sketch what is asked.

SALE OF GOVERNMENT FLEET AT WORLD PRICES.

It is asked that the Shipping Board fleet be sold at world prices, regardless of cost of construction. The cost of construction is a war cost and should be written down to zero. Whatever we get out of the salvage is a profit; and if this fleet, built for war, can be turned to peace-time purposes, we shall verily have performed the miracle of turning the sword into the ploughshare. No other of our war-time expenditures will have had such noble salvage.

The sale of the Shipping Board fleet at world prices means that those who buy will not have higher capital charges than others to the extent of the tonnage they thus acquire. Therefore, in our study of direct aid, we allow a minimum for such type of ships.

MUST SELL AT WORLD PRICES.

Experience has taught that we could not sell the Government-owned fleet at higher than world prices for similar tonnage if we would, and we should not if we could. There is no greater aid to equalize capital charges that can be rendered than to sell the Government-owned fleet at world prices. More we can not get anyhow. Ships sold at such prices, should they earn, with Government aid, above 10 per cent, will perforce pay back to the Government half of the added earnings until the full direct aid is returned to the merchant marine fund. So that the Government will get the benefit of the low price at which it sells the ship. And if a ship, so sold at such a price, does not have earnings in any year above 10 per cent, the best proof will have been given that the ship should not have been sold at a higher price.

Did the Government not possess this vast freight fleet which should meet our needs for that type for years to come, the amount of direct aid which we would have to ask from the Congress and the Treasury would most likely be doubled. Thus we make sound use, on the one hand, for indirect aid purposes of our freight tonnage, and at the same time accelerate the possibility of its disposal, on the other hand.

In order to insure that the sale of the Government's tonnage should carry out the spirit of the act of 1920, and should foster the ownership by communities of lines serving their districts, it is provided that local interests in the seaboard communities, and in the inland

districts naturally tributary thereto, shall have not less than two years in which to organize steamship companies and to secure the capital necessary to purchase the lines which the board is operating from such communities.

CONSTRUCTION LOAN FUND.

Section 11 of the present Jones Act provides that for a term of five years the Shipping Board may recover into a construction loan fund $25,000,000 annually, or a total of $125,000,000. Thus far the Shipping Board, like the horse that eats his head off, has used all the moneys for operation and construction that have come to it from liquidation, and there is nothing in the loan fund. The board, however, hopes with proposed appropriations soon to be made available, to have its debts liquidated at no late date, and asks that it be permitted out of further liquidation, to accrue to the construction loan fund as expeditiously as possible the $125,000,000, and begs permission to loan this at rates as low as 2 per cent.

GREAT CUNARDERS VIRTUALLY GIFT.

Great Britain, feeling a commercial and naval need for the *Mauretania* and *Lusitania*, built these ships for the Cunard line at an interest charge of 2¾ per cent. However, Britain furnished all the money, gave them 20 years to pay it off, and gave the company an annual subsidy that equaled the amount of interest and amortization to be paid. So that in effect, the British government made the Cunard Co. a present of the ships. Nothing so drastic is proposed by the Shipping Board.

OWNER MUST DO HIS PART.

We propose at most to loan two-thirds of the value of the ship; the balance must be furnished by the owner. The low interest rate will be given only for special types of ships that will be considered essential for the building of a balanced merchant marine for peace and wartime purposes; and will be measured with a view to equalizing capital costs. Again, the limitation of profit comes into play; because, if the lower interest rate results in increased earnings at above 10 per cent, half of those increased earnings come back into the merchant marine fund, until the subsidy received is paid back in any one year. If the earnings should not be 10 per cent it will be proved that the Government wisely loaned the money at 2 per cent to insure that these types of ships, which are as needed as warships themselves, be built. It is this construction loan fund that is our greatest insurance for continued operation of private shipyards in America.

INTENTIONAL SECOND EXPOSURE

INDIRECT AIDS.

I shall not undertake now to discuss, save briefly, the various measures of indirect aids proposed. These will be covered in fullest detail, subject to your cross-examination, by those who are expert. I shall, however, briefly sketch what is asked.

SALE OF GOVERNMENT FLEET AT WORLD PRICES.

It is asked that the Shipping Board fleet be sold at world prices, regardless of cost of construction. The cost of construction is a war cost and should be written down to zero. Whatever we get out of the salvage is a profit; and if this fleet, built for war, can be turned to peace-time purposes, we shall verily have performed the miracle of turning the sword into the ploughshare. No other of our war-time expenditures will have had such noble salvage.

The sale of the Shipping Board fleet at world prices means that those who buy will not have higher capital charges than others to the extent of the tonnage they thus acquire. Therefore, in our study of direct aid, we allow a minimum for such type of ships.

MUST SELL AT WORLD PRICES.

Experience has taught that we could not sell the Government-owned fleet at higher than world prices for similar tonnage if we would, and we should not if we could. There is no greater aid to equalize capital charges that can be rendered than to sell the Government-owned fleet at world prices. More we can not get anyhow. Ships sold at such prices, should they earn, with Government aid, above 10 per cent, will perforce pay back to the Government half of the added earnings until the full direct aid is returned to the merchant marine fund. So that the Government will get the benefit of the low price at which it sells the ship. And if a ship, so sold at such a price, does not have earnings in any year above 10 per cent, the best proof will have been given that the ship should not have been sold at a higher price.

Did the Government not possess this vast freight fleet which should meet our needs for that type for years to come, the amount of direct aid which we would have to ask from the Congress and the Treasury would most likely be doubled. Thus we make sound use, on the one hand, for indirect aid purposes of our freight tonnage, and at the same time accelerate the possibility of its disposal, on the other hand.

In order to insure that the sale of the Government's tonnage should carry out the spirit of the act of 1920, and should foster the ownership by communities of lines serving their districts, it is provided that local interests in the seaboard communities, and in the inland

districts naturally tributary thereto, shall have not less than two years in which to organize steamship companies and to secure the capital necessary to purchase the lines which the board is operating from such communities.

CONSTRUCTION LOAN FUND.

Section 11 of the present Jones Act provides that for a term of five years the Shipping Board may recover into a construction loan fund $25,000,000 annually, or a total of $125,000,000. Thus far the Shipping Board, like the horse that eats his head off, has used all the moneys for operation and construction that have come to it from liquidation, and there is nothing in the loan fund. The board, however, hopes with proposed appropriations soon to be made available, to have its debts liquidated at no late date, and asks that it be permitted out of further liquidation, to accrue to the construction loan fund as expeditiously as possible the $125,000,000, and begs permission to loan this at rates as low as 2 per cent.

GREAT CUNARDERS VIRTUALLY GIFT.

Great Britain, feeling a commercial and naval need for the *Mauretania* and *Lusitania*, built these ships for the Cunard line at an interest charge of 2¾ per cent. However, Britain furnished all the money, gave them 20 years to pay it off, and gave the company an annual subsidy that equaled the amount of interest and amortization to be paid. So that in effect, the British government made the Cunard Co. a present of the ships. Nothing so drastic is proposed by the Shipping Board.

OWNER MUST DO HIS PART.

We propose at most to loan two-thirds of the value of the ship; the balance must be furnished by the owner. The low interest rate will be given only for special types of ships that will be considered essential for the building of a balanced merchant marine for peace and wartime purposes; and will be measured with a view to equalizing capital costs. Again, the limitation of profit comes into play; because, if the lower interest rate results in increased earnings at above 10 per cent, half of those increased earnings come back into the merchant marine fund, until the subsidy received is paid back in any one year. If the earnings should not be 10 per cent it will be proved that the Government wisely loaned the money at 2 per cent to insure that these types of ships, which are as needed as warships themselves, be built. It is this construction loan fund that is our greatest insurance for continued operation of private shipyards in America.

INCOME TAX RELIEF.

Another form of indirect aids proposed is in income tax relief. In order to create an incentive for shippers to use American-flag ships and as a stimulus to our foreign trade, a deduction from net Federal income tax payable should be allowed on the basis of 5 per cent of the freight paid on goods imported or exported in American-flag vessels. This deduction, in time, might amount to eight or ten million dollars per year.

Through cooperation with the Treasury Department and by legislation, a greater allowance for depreciation for income tax purposes should be made on ships, in order to make the depreciation allowance more accurately represent the actual depreciation of vessels and to give effect to the marked slump in the value of tonnage during the past several years.

Section 23 of the merchant marine act should be amended so that the payment of all income taxes (which would otherwise be payable on net earnings of vessels in foreign trade) shall be waived by the Government when the amount of such taxes is applied to half the cost of new ship construction—increasing same from one-third as at present.

IMPORTANCE OF THIS DEDUCTION.

It is the belief of the Shipping Board that the proposed deduction from net Federal income tax of 5 per cent of the freight paid on goods imported or exported in American-flag vessels may do more to aid in the upbuilding of the American merchant marine than any proposal which is herein submitted to the Congress.

Section 34 provided preferential tariffs for American-flag ships, but this could only be applicable to dutiable imports. The operation of section 34 gave no preference to American ships on exports, and no preference to American ships on nondutiable imports. The proposed 5 per cent deduction from taxes of the freights paid on goods imported or exported in American-flag vessels, now made, should insure a preference to American shippers on every ton of goods sold abroad or bought for consumption at home. This 5 per cent deduction is made in substitution of section 34, but we of the Shipping Board believe it is possible that this section will accomplish at less cost to the Treasury much more than might have been accomplished by section 34.

NEW MERCHANT MARINE PRACTICALLY PIONEER.

The greatest disadvantage, outside of added capital charge and added wage and subsistence cost, which American ships have endured, is the fact that in overseas carriage, other nations, which have

for a century or more successfully operated, control the volume of trade, and American ships must undergo the great expense of building up that volume.

When a man engages in a new business he must suffer the expense of establishing himself in the trade while his established competitor is enjoying the profit of the volume that comes from long operations. Nothing that can be devised, the Shipping Board feels, will so greatly insure volume to American ships as the 5 per cent tax deduction here proposed.

Again the limitations of profit comes into play. If the 5 per cent is no inducement, then there will be no tax deduction; if it is an inducement, American ships will secure largely increased volume, many will thereby earn over 10 per cent, and half the excess beyond that modest profit will go into the merchant marine fund, until the subsidy is repaid.

DIVISION OF IMMIGRATION.

It is proposed through cooperation with the Bureau of Immigration of the Department of Labor, that regulations should be prescribed and legislation enacted that would insure to American-flag passenger ships at least 50 per cent of the immigration coming to this country.

Such regulations shall not go into effect until existing treaties are modified sufficiently to permit. The President is directed to undertake such negotiations as may be necessary and upon completing such negotiations to proclaim the taking effect of this provision.

Had such a provision been enacted during that pre-war period when immigration was at its height—1,200,000 per annum—and had half of that number of immigrants come in American-flag ships, the Shipping Board believe that instead of having only 15 passenger ships under the American flag in 1914, in the North Atlantic at least we would have had as many passenger ships of the third-class type as any nation in the world, Great Britain not excepted.

OVERLOOKED INVALUABLE IMMIGRATION AID.

Had we husbanded and used our rights—had we shown the slightest interest in, or desire for, a merchant marine, without one cent of aid from the Treasury, through the enactment of an immigration proposal such as here put forth, we had in the flood tide of immigration within our own grasp the means of establishing a valuable branch of the merchant marine. Should this proposal work out as the Shipping Board believes it will the limitation of profits will again come into play, and many of the third-class passenger ships, and better classes of passenger ships, for that, will earn over 10 per cent as a result of

this immigration legislation. The plus beyond the 10 per cent will be equally divided between the owner and the merchant marine fund, until the subsidy is repaid.

REQUIRES GOVERNMENT EMPLOYEES TO USE AMRICAN SHIPS.

It is proposed that all Government agents from whatever department who travel abroad make use of American-flag ships. It would appear unseemingly that Congress should have to be petitioned to make such action mandatory by law, but sad to relate, many if not most of the servants of the Government traveling abroad use the ships of foreign flag, giving ofttimes as their excuse that they do so as a compliment to the country to which they are going. One has never heard of a foreigner using an American-flag ship as a compliment to us!

To increase the revenues of American vessels and to furnish an example for all American citizens to follow in giving preference to American ships, therefore legislation should be enacted that will prohibit hereafter the overseas transportation of passengers or freight at the expense of the Government, other than in a vessel flying the American flag, unless suitable and convenient transportation by an American vessel is not obtainable.

ARMY TRANSPORT SERVICE.

Based on current commercial rates, and on the volume of passenger and cargo movement for 1921 on trans-Pacific traffic alone, the total charge for transporting Government passengers and cargo by commercial vessels would be, approximately, $7,500,000 per annum. There can be no economic justification for the withholding of this business from Shipping Board ships which are available or from privately owned ships. The withdrawal of the Army and the Navy Transport Services, which the President should be authorized to effect by Executive order in whole or in part, will materially reduce the operating losses of the Shipping Board, and should largely aid in the disposal of many of its vessels. It is estimated that during the first year the diversion of this traffic to the trans-Pacific Shipping Board services or to privately owned lines would result in increased net earnings to the Shipping Board or such privately owned lines of approximately $5,000,000. This business would be an impelling inducement to private owners to purchase at a fair valuation the Shipping Board passenger-cargo vessels adapted for this service.

The volume of business afforded to trans-Pacific lines through the Army and Navy Transport Service should do much to aid in bringing earnings to 10 per cent, after which, half of the earnings will be returned to the merchant marine fund until the full subsidy is repaid.

EXTENSION OF COASTWISE RESTRICTIONS.

Inasmuch as the trade between the Philippine Islands and the United States has been free since the passage of the tariff act of 1913, it is felt that there can be no valid objection to the extension of our coastwise laws to include our trade with those islands, as provided in section 21 of the merchant marine act. The trade with the Philippines would not suffer in any respect, since there is available an adequate supply of American ships to carry the entire commerce.

INCREASED PROSPERITY OF PORTO RICO AND HAWAII.

There are those who make crying arguments against section 21 being declared operative. These are either poorly informed, or are the tools of foreign shipowners who have profited by past conditions. It is with mixed amusement and indignation that one reads through the cries of warning issued when Hawaii and Porto Rico were about to be declared coastwise. The objectors drew dire pictures of calamity to those two islands if they should be included in the coastwise laws of America, though they enjoy the benefits of free trade with us. The arguments brought to bear against the coastwise inclusion of Porto Rico and Hawaii are almost, sentence for sentence, word for word, syllable for syllable, the arguments made against bringing the Philippines into our coastwise law. But the history of the accelerated prosperity of Porto Rico and Hawaii since their coastwise inclusion gives emphatic contradiction to the objections now being raised by the ignorant and the selfish and the foreign.

PREFERENTIAL THROUGH RATES ON AMERICAN RAILROADS.

It is believed by many that considerable indirect aid will result from the making effective of section 28 of the merchant marine act. The legislation is mandatory and its real worth can only be determined by actual trial. The Shipping Board is making an exhaustive investigation of the practical application of this section as a preliminary to certification to the Interstate Commerce Commission that adequate shipping facilities are afforded by American ships.

There has been a certain amount of fear on the part of various communities as to the local effect of this section. To remove any apprehension, the section is amended so that when both the Interstate Commerce Commission and the Shipping Board are of the opinion that its operation will materially change the channels of transportation within the United States or unduly congest ports of the United States, the commission may suspend the operation of the section.

COORDINATION OF RAIL AND WATER FACILITIES.

The railroad systems of the United States feel the need of definite import and export working agreements with steamships engaged in foreign trade. A number of such agreements have been made in the past, and some are still in force. They have usually been with foreign steamship lines; such agreements to-day are prejudicial to American shipping. It would seem expedient and wise to permit reasonable working arrangements to exist between railroads and steamships, with special reference to the interchange of traffic between the roads and vessels of the United States.

The problem of fully and completely coordinating our rail and water transportation is acute and important. The solution of this problem will involve extensive research and study of the facts and principles involved. The work, of course, calls for the supervision of the Interstate Commerce Commission, as well as of the United States Shipping Board. The suggestion has been made that a group of experts should be created, to be appointed jointly by these two bodies, whose chief duty would be to make full inquiry and to formulate appropriate rules and regulations providing for such coordination, subject to the approval of the Interstate Commerce Commission and the United States Shipping Board.

ADDED IMPETUS FOR INVESTMENT OF NEW CAPITAL.

At the same time an added impetus can be given the investment of new capital in American shipping and in the possible purchase of vessels from the United States Shipping Board, if railroad interests are permitted to own and develop steamship lines operated exclusively in foreign trade. To do this effectively it would be necessary to modify section 5 of the interstate commerce act to the extent that vessels may be thus owned when exclusively engaged in foreign commerce. The provisions of that act would remain in full force, so far as they prohibit the use of the canal by vessels owned by railroad interests, if the vessels are engaged in traffic between the Atlantic and Pacific coast of the United States. This would leave intact the main purpose of the original provision, which was to insure the competitive advantages of water-borne intercoastal traffic against the control of transcontinental railroads.

These are the indirect aids which the President asks the Congress to enact into legislation.

DIRECT AID.

In its study the Shipping Board has undertaken to make a proposal that shall put American ships on a basis of equality with Great Britain, which has the next highest cost of operation to ours. At

no time did we consider aids, direct or indirect, that should do anything for the American owner but place him on a parity with Great Britain. Others will explain to you how we arrive at the basis of direct aid, which may be necessary to take up the slack between the benefits inuring from the indirect aid proposed, and the amount needed to place costs on a parity with those of Great Britain.

The difference in costs will be not alone that existing at present. Recognizing the imperative need of an American merchant marine in the true sense of the word, the bill provides that no vessel shall receive compensation unless two-thirds or more of her entire crew, exclusive of officers, are American citizens. The officers are required to be citizens by law. The remainder of the crew must be eligible for citizenship, which bars from employment on compensated vessels crews drawn from the so-called Asiatic barred zone. Because of the difficulty of training American citizens to be servants and waiters, the steward's department on passenger ships is exempted from this requirement.

The effect of demanding a fixed proportion of American citizens on board ship and the setting of that proportion at a figure much higher than that which obtains to-day will result in an increased wage differential even beyond that which exists to-day.

AMOUNT OF DIRECT AID.

The direct aid is computed on a differential based on a combination of speed, tonnage, and distance covered, starting with a half cent per gross ton per 100 miles steamed in the foreign trade for ships under 13 knots, and increasing to a total of 2.6 cents per gross ton per 100 miles steamed, for ships of 23 knots and over. It is estimated that in order to develop a balanced fleet of 7,500,000 gross tons, which should carry 50 per cent at least of all branches of our overseas trade, the cost to the Treasury will ultimately approximate $30,000,000, though for the first year it is estimated at only $15,000,000.

The details of how this will work out require technical and lengthy illumination, which will later be given you by those who are expert.

DIRECT AID PROPOSED MODEST.

I wish only to state that from the investigations made by the Shipping Board, we think this sum a very modest one. If it should enable us to soon get the Emergency Fleet Corporation out of operation and save the greater part of the $50,000,000 loss which now burdens the Treasury, the direct aid here proposed should and will more than pay for itself. It is for that reason that we stand firm in the guarantee to Congress that before long the amount paid out

in cash subsidy to American ships will be more than equalized by decreased appropriations for the Emergency Fleet Corporation.

It was obviously impossible to compute a basis of Government aid that will be exact. It is no more possible to figure out a system of direct aid for shipping on exact lines than it is possible to enact a tariff bill or a tax bill that will work out with exact justice. When one legislates in the abstract for such vast undertakings, covering differing operations under differing conditions, one can figure at best on the average. But happily in the present proposed legislation, by the limitation on profit the inequalities are equalized in the ultimate.

PROPOSE LESS AID THAN NOW GIVEN IN ONE CASE.

Because of the great value it places on the indirect aids, the Shipping Board figured a very modest sum for direct aids. For instance, there are to-day two subsidized ships of the Oceanic Steamship Co. under the American flag going to Australasia. They now receive in postal subsidies $85,000 per ship per year. It is our understanding that the owners of these ships, at the expiration of their present contract with the Post Office Department, will refuse to renew their contract, because they can not operate the ships with profit. Even though these ships can not be profitably operated, it may be essential to our potential trade that they continue on those routes. Under the proposed direct aid, these ships would each receive but $60,000 per year, or $25,000 less than they are receiving at present, and the owners now refuse to renew the present arrangement because it does not sufficiently recompense them.

FLEXIBILITY PERMITS AID WHERE AID IS NEEDED.

This instance is cited to illustrate, first, the same basis on which the direct aids have been proposed by the Shipping Board; and second, the need of giving elasticity to the Shipping Board in the application of direct aid. Therefore, it is proposed in the law that the Shipping Board have the power in the contracts which it makes with subsidized lines to lessen the amount of direct aid, or to increase it up to double the scheduled amount.

PROFIT LIMITATION ALWAYS A SAFEGUARD.

In the case of the Australasian lines, it is obvious that even with the indirect aids, the direct aid proposed may not be sufficient. Under the law as requested, the Shipping Board would have the right to give these ships more direct aid than the law provides; but again the limitation of profit feature comes in as an automatic check on mistaken judgment or preference; for, if the Shipping Board allowed too much, when the profit reaches 10 per cent in any one year, half

of the plus profit returns to the merchant marine fund until the subsidy is repaid. And if the ships do not earn 10 per cent, surely there can be no question of a profiteering subsidy.

In the need for a balanced merchant marine it is conceivable that the Shipping Board would want to induce private capital to build various types of very expensive ships that could not be profitably operated without a large measure of Government aid—passenger ships, refrigerator ships, ships convertible to hospital and airplane purposes.

ELASTICITY CLAUSE EXPLAINED.

It is possible in the development of our peace-time trade with proper vision that the Shipping Board would want to send ships on routes where no cargo movement nearly sufficient to insure profitable operation exists, but where, if for a given length of time we had ships plying regularly, such movement could be created to the great profit of our agriculturalists, our manufacturers, our exporters, and our importers. To such ships, in the interests of all our people, the Shipping Board asks the privilege to have elastic right to give up to double of the aid provided for in the proposed legislation. But again the limitations on profit comes into play; should the amount given by the Shipping Board result in accrued earnings of over 10 per cent in any one year, half of the plus earnings would be returned to the merchant marine fund. And if these needed ships or needed routes we aid, in statesman-like vision, to insure our future, should not earn 10 per cent, surely there can be no question of a profiteering subsidy.

AID DECREASES AS EARNINGS INCREASE.

On the other hand, there can be no doubt that if the Shipping Board possesses proper wisdom and interest, in some cases it will perceive in advance that the subsidy called for in the proposed legislation might insure earnings greater than 10 per cent, but not enough greater so that the half of the excess would result in all the subsidy being returned to the merchant marine fund. In such cases the Shipping Board asks the right to make contracts for a lesser amount than provided for in the law, because the Shipping Board does not want to knowingly give direct aid which, in addition to the indirect aids, will insure too great a constant profit at the public expense.

It is impossible to apply any direct aid by blanket legislation which, when added to unascertainable benefits from indirect aids for varying types of ships in varying trades under carrying conditions, shall put our ships on a parity with Great Britain and attractive to private capital. Therefore, elasticity should be given to the Shipping Board in the application of the direct aid, that insured fleets of

right types should be encouraged in needed trades. But by limitations on profit, the Treasury is guaranteed against mistakes in judgment, and profiteering can not result.

ELASTICITY BUILDING UP DIVERSIFIED PORTS.

It might be well to point out that the elasticity provision of the proposed law will give potential power to the Shipping Board to build up ports as well as shipping lines—that the whole people of the United States, particularly the farmer and manufacturer of the interior, may be insured facilities geographically diversified, to make certain prompt port handling of his shipments.

A further benefit by giving the Shipping Board elasticity in the application of direct aid comes from the fact that thereby the possibility of retaliation is largely averted. If foreign nations know that the Shipping Board can meet retaliatory increases of subsidy immediately, they will be slow to go into such competition, because they know that they can neither force nor frighten us out.

MUST RETURN PART OF EARNINGS TO GOVERNMENT.

In the proposed legislation the possible earnings are not limited to 10 per cent, but may permissibly go to any extent beyond 10 per cent, save that 50 per cent of the excess earnings is returned to the fund until the subsidy is repaid, in order to attract capital into investment in ships, and that too big a premium be not put on the inefficient. If the efficient operator is limited in earnings to 10 per cent, and must pay all profits above that earning back to the merchant marine fund, we thereby subsidize the inefficient operator in a continuance of his inefficiency and destroy his initiative, to the hurt of the upbuilding of the American merchant marine. Or, if the earnings of the efficient operator must remain static until the inefficient catch up with him, the encouragement flows to the inefficient at the expense of efficiency.

MUST STIMULATE SHIPPING INVESTMENT.

In America there is neither consciousness nor desire for investment in shipping. Competition with investment opportunity on land in America has made investment in ship securities very unattractive to our people, and those who have invested have had sorry experience. We must, if we are to attract those who put their money in common stocks, allow profits continuous and increasing, according to merit and condition of the times and permit reserves to be created for losing years. For these reasons, it would be a sad mistake to cut the profit off at 10 per cent in its entirety until the subsidy is repaid into the

merchant marine fund. The investor must know that there is no point when, through efficient operation, he can not get an expectancy of some increased return.

The study of the limitation of profit has been made with a view to insuring that every dollar paid out of the public treasury brings creative results to the American merchant marine on the one hand, and still minimizes that measure of governmental supervision and interference which might make the private owner timid.

DETAILS OF LIMITATION OF PROFIT FEATURE.

The limitation of profit follows only those ships which qualify as being entitled to the aid. If a company operates several ships, some of them making money and some losing money, the company can take the earnings of the ships jointly to get an average.

It is in the national interest that all ships be aided which helpfully build up trade for the national wealth. There are companies where ship operations are only a minor part of the total operations of the company and incidental thereto. In such companies, therefore, the Shipping Board eliminates any profits or losses made on operations that accrue from any sources save ships.

NO OPPORTUNITY FOR FRAUD.

If a shipping company desires to invest a large sum of money in a building as an advertisement, if it goes into the financing business, that is an operation and a risk entirely aside from any interest the government as a whole holds in shipping, and the profit or the loss accrues entirely to the company. One company may operate ships only and have no outside investments. Another company may operate ships and go into vast building and banking enterprises. To put all on a parity, we consider only ships and ship operations in the profit limitations.

TREASURY CHECKS EARNINGS.

That there may not be undue Government interference, the check on profits is made by the Treasury Department, and not by the Shipping Board. It is proposed that the return be made by the operator on the same return where he attests to the Treasury for his corporation's income tax, and the Treasury checks up on the ships' operations at the same time that it checks upon the corporation or individual tax, thus doing away with any added Government supervision of operations than that which exists to-day through the work of the Internal Revenue Department. We believe we have worked out a plan in the limitations of profit which, when explained to you

in detail, will serve on the one hand to protect the Treasury, and on the other hand to automatically inspire efficient operation and the proper covering of needed routes.

MISUSE OF AID GUARDED AGAINST.

At one time the French Government in its possibly mistaken effort to develop a merchant marine largely of sailing ships—because the country did not lend itself naturally to the construction nor operation of steamers—subsidized heavily on a mileage basis ocean-going sailing craft. The cost of operation of a sailing ship is comparatively low. In normal operation this is balanced by the fact that its revenue is equally low. With the subsidy granted by the French, however, it became possible, owing to the low cost of sailing ship operation, to move sailing ships about the world largely or wholly in ballast, and to derive returns entirely from the subsidy.

This circumstance has been brought up many times since as an argument against direct aid to shipping. It is a faulty argument because it does not apply to steamers. A moment's reflection will show the impossibility of operating a steam vessel for subsidy alone. Taking the smallest class allowed, 1,500 gross tons, and giving her the benefit of the aid accruing to a 5,000 ton ship, and further assuming that she covered a distance of 240 miles per day, she would derive for that 240 miles but $60. To steam that 240 miles she must have expended $120 in burning 20 tons of coal, at least, at a probable minimum cost of $6 per ton. Thus it can be seen that her fueling alone will be twice the amount of direct aid collected under the most favorable circumstances. With wages, subsistence, stores, repairs, interest, insurance and depreciation to meet, there is no fear that the small amount of direct aid recommended will permit inefficient operation when it only meets half of the fuel costs alone.

NO INSURANCE OF PROFITS.

Even with the most efficient operation there is nowhere contained in this proposed legislation a guaranty of profit. In very bad years, when British shipping as a whole loses money, it is conceivable that, with all the aids proposed, direct and indirect, our ships may lose. There is nothing in the proposed legislation that insures profits, on the one hand, or encourages profiteering on the other. The reason for allowing 10 per cent in good years and half of the plus over 10 per cent until the subsidy is repaid to the merchant marine fund is that companies may build up a reserve to tide them over the losing years, which are not infrequent in the shipping business.

All ship owners getting the benefit of subsidies must pay back into the merchant marine fund the moneys they receive for the carriage of the mails, which is now fast amounting to $5,000,000. The subsidy proposed by this legislation is the only subsidy the carrier would receive. In effect the mails, other than parcel post, would be carried free. Thus we would be insured much better mail service for the development of our trade; for, instead of mails waiting at the dock to be carried by specially subsidized ships, we would send them in unlimited quantities on the first ship available.

STABILITY ESSENTIAL TO CONFIDENCE OF INVESTORS.

The legislation asks the right to make 10-year contracts. Shipping men generally question that this period is long enough. They argue for reasons which later they will lay before your committee, that 15 years should be the period of the contract. The Shipping Board hopes and feels that within 10 years through then established trade routes the freights inuring to American ships under the beneficial provisions of the indirect aids of the proposed law will have sufficiently increased to make direct aid largely unnecessary. It is for that reason that the Shipping Board takes a differing position from the private owner. However, that contracts be made for a period of ten years is essential, for it is a notorious fact, known to all, that American ships, without the proposed aid, can not, by and large, profitably operate, and investors will refuse to put their moneys into securities of American ships unless they know they are protected by at least ten-year contracts.

NATIONAL POLICY WOULD BRING NEW LIFE.

The Shipping Board wishes to emphasize to your committee and to the Congress that world shipping is now more depressed than it has ever been in proportion to world tonnage. Capital is hard to get; operators are timid, not only because of the lack of cargoes, but because of the uncertainty that hangs over shipping all over the world, through the possible continuous competition in operation of the American Government and through the unliquidated tonnage owned by our Government. The greatest stabilizer for world shipping conditions, and particularly for American shipowners and operators, that could come, would be the enactment of the legislation proposed by the President, that will give a national policy to American shipping, and in behalf of which the Shipping Board is now appearing before you. Courage would immediately come to the American owner, and new life, we believe, would be given to the American investor.

CONCLUSIONS.

However, so vast an undertaking can not be quickly liquidated. We believe that of the 700 good freight ships we have the Shipping Board would feel very happy if, within thirty months from the time of the passage of this bill, it could dispose of sufficient ships to take care of the routes it is now operating and put the Emergency Fleet Corporation out of business as an operating company. This, however, the Shipping Board believes is within the realm of promisable accomplishment, and the Shipping Board believes it can in good faith encourage the Congress to believe will be brought about.

In the human body many organs are vital. Without the heart, the lungs, the liver, the brain, life is not possible. No man can say which is the more vital organ. And so in our national life are many organs vital. Which is the most vital, no man can say; but without the possession of any one of the vital organs the Nation can no more live than can the individual. In the development of our national being the merchant marine for peace and war purposes has become a vital organ. Government operation makes that organ a diseased one.

NATION FACES ISSUE IT CAN NOT DODGE.

We are now face to face with the solution of this great national problem. The Shipping Board believes the proposal of the President, if adopted by the Congress without major change, will bring to America a healthy organ in a merchant marine; one consonant with our national strength, with our national potentialities, and with our national desires. The salient proposals made are as a mosaic, where each part fits into the other. The Shipping Board stands fast for the general principles covered. But in the application of details, both by law and regulation, the board feels free to say that there may be points that should be further explored and various views that should be considered. Any radical change in the proposals might, however, result in the destruction of the whole.

URGENCY OF THE SITUATION.

For reasons which we have sketched to you, the inefficiencies of the Government operation, the great loss thereby accruing through the continuance of the Emergency Fleet Corporation, and uncertainty in the minds of private owners because of that continued operation, and the need of a policy to insure the disposition of the Government-owned fleet, all testify to the fact that expedition is the essence in the enactment of the legislation for which the President has asked. Delay may be fatal. The Shipping Board would view with alarm inaction by this Congress on the legislation which the President asked in behalf of our merchant marine.

PROPOSAL NONPARTISAN—ALL-AMERICAN.

If you accept not our proposal, we join the President in asking that you make a contra one, for, if the status quo remains, we know that as a merchant marine power we shall be bankrupt.

We come before you pleading an all-American question, nonpartisan, with the unanimous recommendation of all the members of our board, Democratic and Republican alike. We come before you to plead that through the enactment of the legislation proposed by the President, America may take its place on the seas as it has won its place on the land. We come before you to plead that an instrument of war be turned into a glorious and profitable instrument of peace, and that we thereby insure to coming generations the heritage which should rightly be theirs.

○

MCH # 22066

END OF
TITLE